

Report of the auditor-general to the Limpopo provincial legislature and the council on Maruleng Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Maruleng Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Maruleng local municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003 (MFMA) and the Division of Revenue Act, 2018 (Act No. 1 of 2018) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

7. With reference to note 40 to the financial statements, the municipality is the defendant in various lawsuits amounting to R9 014 946. The municipality is opposing these claims as it believes it has reasonable grounds of defending it. The ultimate outcome of this matter cannot

presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

8. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error discovered in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Irregular expenditure

9. As disclosed in note 41 to the financial statements, the municipality incurred irregular expenditure amounting R17 231 820 as it did not follow the supply chain management regulations.

Other matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance,

but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priority	Pages in the annual performance report
Development priority 2 – basic service delivery	x – x

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. The material findings in respect of the reliability of the selected development priority are as follows:

Key performance area 2 – basic service delivery

Number of street lights maintained

22. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the number of street lights maintained. This was due to insufficient and inadequate documents provided for audit. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.

Number of buildings maintained

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the number of buildings maintained. This was due to insufficient and inadequate documents provided for audit. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.

Number of roads and bridges maintained

24. I was unable to obtain sufficient appropriate audit evidence for the reported achievement number of roads and bridges maintained. This was due to insufficient and inadequate documents provided for audit. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported in the annual performance report.

Other matters

25. I draw attention to the matters below.

Achievement of planned targets

26. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under of a significant number of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraph(s) x; x; x of this report.

Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: basic service delivery. I raised a material finding on the reliability of the reported performance information, management subsequently corrected some of the misstatements. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific

matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

29. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of receivables from non exchange, revenue, expenditure, property plant and equipment, contingent liabilities and commitments were identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion

Human resource management

31. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Strategic planning and performance management

32. The performance management system and related controls were inadequate as it did not describe how the performance monitoring should be managed, as required by municipal planning and performance management regulation 7(1). Numerous misstatements relating to the reported performance information were identified.

33. No Key Performance Indicators were set in respect of the provision of basic electricity services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

Revenue management

34. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Supply chain management

35. The preference point system was not applied on some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000).

36. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for Matebele Construction.

Expenditure management

37. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Other information

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
39. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
40. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

41. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the unqualified opinion, the finding on the performance report and the findings on compliance with legislation included in this report.
42. The accounting officer did not adequately review the financial statements and the annual performance report. This resulted in the annual financial statements and the annual performance report containing material misstatements.
43. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
44. The accounting officer did not review and monitor compliance with legislation. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.
45. The municipality conducted a risk assessment, as required by the MFMA. However, the mitigation actions designed to address the identified risks were inadequate to prevent recurrence of prior year issues.

Auditor General

Polokwane

2 December 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence